

## Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10  
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AID-05 EB-08 COME-00 TRSE-00 OMB-01 AGRE-00 XMB-02  
HA-05 /080 W  
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R 091140Z MAR 78  
FM AMEMBASSY GABORONE  
TO SECSTATE WASHDC 1749  
INFO AMCONSUL CAPE TOWN  
AMEMBASSY MBABANE  
AMEMBASSY PRETORIA

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CAPE TOWN FOR EMBASSY

E.O 11652: L/A  
TAGS: EFIN EAID EINV BC  
SUBJ: BOTSWANA: VICE PRESIDENT'S FINANCIAL YEAR 1978/1979  
BUDGET SPEECH

BEGIN UNCLASSIFIED

1. SUMMARY: VICE PRESIDENT MASIRE'S ANNUAL BUDGET MESSAGE OF 21 FEB 1978 EMPHASIZED FACT THAT ALONGSIDE OF BOTSWANA'S ECONOMIC STRENGTHS, MANIFESTED BY RISING REVENUES, BUDGET SURPLUSES AND DEVELOPMENT EXPENDITURES, THERE EXIST PERILS RELATED IN GOOD PART TO THE DETERIORATING SECURITY SITUATION IN SOUTHERN AFRICA WHICH COULD EASILY REVERSE THE UPWARD TREND OF THE ECONOMY. A COMMENT FOLLOWS THE HIGHLIGHTS OF THE BUDGET SPEECH. END SUMMARY

2. INTERNATIONAL SCENE. MASIRE EMPHASIZED THAT BOTSWANA'S POSITION HAD TO BE SEEN AGAINST A BACKGROUND OF WORLD-WIDE  
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UNCERTAINTY, I.E. INFLATION, SAGGING COPPER-NICKEL PRICES, SLUGGISHNESS TF THE SOUTH AFRICAN ECONOMY, RISING PRICES OF IMPORTS AND ENERGY AND CONTINUED UNCERTAINTY OF THE EEC AS A MARKET FOR BEEF EXPORTS.

3. DOMESTIC OUTLOOK. HIGHLIGHTS OF THE FISCAL YEAR WERE THE  
(A) EXPANSION OF DIAMOND EXPORTS (PULA 56 MILLION FOR 77/78,

(B) ANTICIPATION OF THE JWANENG DIAMOND PIPE COMING INTO PRODUCTION IN 1982, (C) THE FORMATION OF AN AMERICAN-LED COMMERCIAL BANK CONSORTIUM (FIRST NATIONAL BANK OF BOSTON) TO HELP FINANCE GOB SHARE OF JWANENG INFRASTRUCTURE BUILDING, (D) THE ANNOUNCEMENT OF A COMPLETE FINANCIAL RESTRUCTURING AGREEMENT ON SELEBIPIKWE AMONG THE GOB, SHAREHOLDERS AND LENDERS WHICH WOULD INCREASE GOB ROYALTIES FROM P750,000 TO P3 MILLION A YEAR, AND (E) A REORGANIZATION OF MINE MANAGEMENT AND NEW COMMITMENTS OF FUNDS BY THE AMX AND ANGLO-AMERICAN SHAREHOLDERS.

4. NEVERTHELESS, DOMESTIC OUTLOOK WAS CLOUDED BY HOOF AND MOUTH EPIDEMIC WHICH BROUGHT BEEF REVENUES BELOW PREVIOUS PERIOD. MOREOVER, CROP YIELDS WERE ALSO BELOW ALREADY LOW ONES OF PREVIOUS YEAR. MASIRE SAID THAT INCREASE IN INTERNATIONAL REVENUES FROM P77 MILLION TO P82.5 MILLION (DEC 77) REFLECTED THE SLOW GROWTH OF THE ECONOMY.

5. TOO, SOUTHERN AFRICAN SECURITY PROBLEMS IMPEDED INVESTMENT AND CAUSED A DIVERSION OF PUBLIC FUNDS AND MANPOWER FROM HIGH-PRIORITY DEVELOPMENT PROGRAMS. NOTING THAT THE FARAH MISSION ESTIMATED AN ADDITIONAL P44 MILLION NEEDED TO FINANCE UNPLANNED EMERGENCY PROJECTS AND UNBUDGETED SECURITY NEEDS, MASIRE SAID THAT MANY SECURITY-RELATED PROJECTS STILL REMAIN TO BE FUNDED AND WOULD HAVE TO BE MET FROM DOMESTIC REVENUES.

6. PARASTATAL SECTOR. APART FROM USUAL FINANCIAL PROBLEMS OF LIMITED OFFICIAL USE

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THE BOTSWANA POWER CORPORATION, MASIRE NOTED SERIOUS CONCERN OVER BOTSWANA MEAT COMMISSION AND THE BOTSWANA LIVESTOCK DEVELOPMENT CORPORATION, BOTH OVERSHADOWED BY THE HOOF AND MOUTH EPIDEMIC. THE CRUX OF THE PROBLEM WAS HOW SOON SLAUGHTERING COULD RESUME OF ANIMALS COMING FROM THE VETERINARY BUFFER ZONES AND WHEN EXPORTS RESUME TO THE EEC.

7. FINANCIAL OUTLOOK. MASIRE NOTED THAT THE INTRODUCTION OF THE PULA CURRENCY HAD BEEN SUCCESSFUL AND, WITH ITS RE-EVALUATION IN APRIL 1977, COMBATED THE IMPORTATION OF SOUTH AFRICAN INFLATION. AT SAME TIME BOTSWANA WAS ABLE TO MAINTAIN MINIMAL EXCHANGE CONTROLS AND THE BANK OF BOTSWANA RECENTLY INTRODUCED FURTHER RELAXATIONS TO ATTRACT INVESTMENT.

8. 1976/1977 BUDGET. RECURRENT REVENUES P71.5 MILLION; RECURRENT EXPENDITURES P68 MILLION. THE DEVELOPMENT FUND EXPENDED P37.6 MILLION, THREE-FOURTHS OF WHICH WAS FINANCED BY FOREIGN LOANS AND GRANTS.

9. 1977/1978 BUDGET (ESTIMATES). RECURRENT REVENUES P102.9 MILLION; RECURRENT EXPENDITURES P79.3 MILLION. BOTH FIGURES WERE OVER P8 MILLION LARGER THAN INTENDED; THE FIRST BECAUSE OF UN-

EXPECTED REVENUES FROM THE CUSTOMS UNION AND MINERALS AND THE SECOND BECAUSE OF DEMANDS RELATED TO THE HOOF AND MOUTH EPIDEMIC AND SOUTHERN AFRICAN SECURITY PROBLEMS. DEVELOPMENT FUND EXPENDITURES TOTALED P50 MILLION, 30 PERCENT ABOVE PREVIOUS YEAR. TWO-THIRDS CAME FROM FOREIGN LOANS AND GRANTS.

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R 091140Z MAR 78  
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CAPE TOWN FOR EMBASSY

10. 1978/1979 BUDGET (ESTIMATES). RECURRENT REVENUES P118.7 MILLION; RECURRENT EXPENDITURES P89.7 MILLION. AGAIN, BOTH FIGURES IN EXCESS OF PLANNED ESTIMATES BECAUSE OF CUSTOMS AND DIAMOND REVENUES IN THE FIRST CASE AND COSTS OF SECURITY, EDUCATION, HEALTH AND RURAL DEVELOPMENT IN THE SECOND. MASIRE NOTED THAT GROWTH OF CUSTOMS AND DIAMOND REVENUES NOT ALTOGETHER COMFORTING BECAUSE GROWTH IN OTHER SECTORS WAS "DISTURBINGLY SLOW". TOO, DIAMOND PRICES ARE SO FAR AHEAD OF LONG-TERM TRENDS THAT SLOW DOWN IN FUTURE RATE INCREASES MUST BE EXPECTED.

11. MASIRE SAID THAT RISING EXPENDITURE RATES RESULT LARGELY FROM GOVERNMENT'S ATTEMPT TO MEET GROWING SECURITY AND OTHER EMERGENCY EXPENDITURES AND TO CATER FOR RECURRENT COSTS IN EDUCATION, HEALTH AND RURAL DEVELOPMENT. FURTHER UNFORSEEN CONTINGENCIES SUCH AS RAPID DETERIORATION IN THE SECURITY

SITUATION, AN ACCELERATED TAKEOVER OF THE RAILWAY OR A  
SPREADING OF HOOF AND MOUTH EPIDEMIC MIGHT FORCE GOVERNMENT  
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TO ADJUST EXPENDITURES IN OTHER AREAS.

12. P29 MILLION WOULD BE APPROPRIATED TO OTHER BUDGET FUNDS,  
I.E. P9 MILLION TO THE PUBLIC DEBT SERVICE FUND, P1 MILLION  
TO REVENUE STABILIZATION FUND AND P19 MILLION TO THE DOMESTIC  
DEVELOPMENT FUNDS, AN AMOUNT APPROXIMATELY ONE-THIRD OF  
ESTIMATED DEVELOPMENT EXPENDITURES.

13. DEVELOPMENT EXPENDITURES. P76.2 MILLION PLANNED FOR  
1978/79 WITH P60 MILLION ANTICIPATED FOR ACTUAL EXPENDITURE  
BECAUSE OF NORMAL DELAYS RELATED TO DESIGN TENDERING AND  
DONORS. P23 MILLION TO BE USED ON ROADS ALONE. OTHER AREAS OF  
HEAVY EXPENDITURE WOULD BE SCHOOLS, HOSPITALS AND URBAN  
DEVELOPMENT.

14. SIZEABLE AMOUNTS WOULD GO TO DEFENSE AND SECURITY PROJECTS,  
I.E. THE BOTSWANA DEFENSE FORCE, EMERGENCY OIL STORAGE DEPOT,  
PURCHASE OF ROLLING STOCK FOR THE RAILWAY, AND CONSTRUCTION  
OF THE TULI BLOCK VETERINARY CORDON FENCE.

15. DONORS. MASIRE NOTED WITH GRATITUDE INCREASE IN UNTIED  
DONOR ASSISTANCE AND ACTION OF CANADA AND SWEDEN TO WAIVE  
REPAYMENT OF PAST LOANS, P30 MILLION AND P5 MILLION RESPECT-  
IVELY. HE SAID BOTSWANA HAD A DEBT SERVICE RATIO AMONG THE LOWEST  
OF ALL NON-OIL DEVELOPING COUNTRIES.

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16. COMMENT: BUDGET FIGURES FOR THREE CONSECUTIVE FINANCIAL  
YEARS HAVE SHOWN HEALTHY SURPLUSES AND AN IMPRESSIVE GROWTH  
IN BOTH RECURRENT REVENUES AND DEVELOPMENT EXPENDITURES. THIS  
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IS UNDOUBTEDLY DUE TO GOB'S TRADITIONALLY CONSERVATIVE  
FINANCIAL PHILOSOPHY AND CONTINUED ENTHUSIASM OF DONORS FOR  
BOTSWANA. HOWEVER, AS MASIRE HAS MADE CLEAR, BOTSWANA IS  
CONFRONTED BY PERILS WHICH CAN EASILY REVERSE THE DIRECTION  
OF THE ECONOMY, I.E. THE DETERIORATING SECURITY SITUATION IN  
SOUTHERN AFRICA, THE POSSIBLE SPREAD OF THE PRESENT HOOF AND  
MOUTH EPIDEMIC, THE WEAKENING OF THE SOUTH AFRICAN ECONOMY,

THE POSSIBLE NEED PREMATURELY TO TAKE OVER THE RHODESIAN RAILWAY AND THE SAGGING WORLD PRICES FOR COPPER-NICKLE. CLEARLY, THE POTENTIAL IS GREAT FOR A REVERSAL OF BOTSWANA'S ECONOMIC FORTUNES.

17. EVEN IF SUCH AN ECONOMIC REVERSAL IS AVOIDED, BOTSWANA REMAINS A VERY POOR COUNTRY WITH HEAVY POLITICAL AND SECURITY BURDENS. IN PARTICULAR, DIVERSION OF DEVELOPMENT RESOURCES FOR REFUGEE AND SECURITY RELATED EXPENDITURES WILL CONTINUE TO CONSUME RESOURCES WHICH WOULD OTHERWISE HAVE BEEN USED TO IMPROVE QUALITY OF LIFE FOR PEOPLE OF BOTSWANA. PRESIDENT KHAMA AND OTHER GOB OFFICIALS HAVE MADE IT CLEAR ON NUMEROUS OCCASIONS THAT LITMUS TEST OF BOTSWANA'S RELATIONS WITH OTHER COUNTRIES WILL BE THEIR RESPONSIVENESS TO GOB REQUESTS FOR ASSISTANCE IN MAINTAINING MOMENTUM OF BOTSWANA'S DEVELOPMENT IN FACE OF DEEPENING SOUTHERN AFRICAN CRISIS. EMBASSY THEREFORE URGES EXPEDITIOUS DEPARTMENT AND AID/W ACTION TO IMPLEMENT SSA PROGRAM GRANT TO BOTSWANA TO HELP OFFSET THESE REFUGEE AND SECURITY RELATED EXPENDITURES.

NORLAND

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## Message Attributes

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